



NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
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STATEMENT OF
THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON THE DESIGN OF A SUPPLEMENTAL RETIREMENT PROGRAM
FOR
FEDERAL EMPLOYEES HIRED AFTER 1983

WEDNESDAY, OCTOBER 23, 1985

I am L.J. "Lud" Andolsek, President of the National Association of Retired Federal Employees, commonly known as NARFE. On behalf of our 500,000 members it is a pleasure to appear again before this Committee on the important matter of developing a supplemental retirement program for new federal employees.

At your previous hearing in April, you requested our views on certain design elements which needed to be addressed in the creation of a supplemental retirement program. We were eager to provide our views since we have performed an extensive and expensive analysis on this issue over the past two years. Aside from addressing the design elements, NARFE testified at the time that the new plan should meet the following goals:

- o It should provide an adequate retirement income for the new employees across the full spectrum of job classifications and salary grades;
- o It should be a program that will be fair to new hires, the 5 million employees and annuitants still under the current Civil Service Retirement System, and the public;
- o It should be funded in a manner that will protect the financial integrity of the current system into the future;

- o It should meet the federal government's continuing need to attract and retain a quality workforce that can execute the many different functions of government at the high performance level to which the American taxpayer is entitled.

In the six months since that hearing, we have all been arriving at conclusions on how to best satisfy these and other goals. It's not altogether surprising that the plan which you unveiled two weeks ago is very similar to the one which evolved from our study. Mr. Chairman, I'd like to believe this occurred simply because great minds think alike. But that is not entirely the case. I believe we were both also guided by tradition, experience, and honor as we arrived at our similar conclusions.

Traditionally, the retirement system has been the single most important compensation element in attracting and retaining a qualified federal workforce. The promise of an adequate income replacement rate upon retirement after 30 or more years of service has been sufficient to keep qualified employees on the job even when their pay has been frozen. While Presidents and legislatures have tampered with all other elements in the compensation package, attempts to cut the retirement program have consistently been rebuffed because it is simply too important an issue with which to play politics.

Experience has demonstrated that the retirement system must be capable of withstanding political attacks. Therefore, it was essential that the bond among all employees and retirees be maintained.

Finally, it was critical that we honor the commitment to not abandon those soon to be and those already retired. If we fail to respect our commitments to the elderly, we have no honor.

As you have constructed your plan over the past six months, it is apparent that you had these matters in mind. The plan put together by you and the Chairwoman of the Subcommittee meets these crucial tests:

- it protects the integrity of the current system and insures its continued political and financial solvency in the future;
- it respects the commitment by you Mr. Chairman and other House leaders that broadened Social Security coverage would not mean reductions in the value of Civil Service Retirement; and
- it is consistent with previous Acts of Congress which created the current benefit structure and levels.

On this last point, I must give a personal observation. As Civil Service Commissioner for almost 14 years, I worked in Republican and Democratic Administrations. I was involved in many of the deliberations concerning the design of the current system. Sometimes I was in the minority, and sometimes I prevailed. But I can assure you that both convincing practical and political considerations went into the design of the current system.

This is one reason I must salute and applaud your plan. It does not try to reinvent the wheel. Rather, you have succeeded in piecing together the critical elements needed to keep the soon to be tandem wheels of Federal retirement equal in size and sync.

Just as this legislation should be no less than the current Civil Service Retirement System template, it should be no more. This is not the time to make long sought after changes in retirement benefits available to certain categories of employees. As you have proposed, and we wholeheartedly agree, the job before us now is simply to bridge the Social Security gap. When added to Social Security benefits, the supplemental plan you propose provides retirees, disabled employees, and survivors with total benefits comparable to the existing Civil Service Retirement System. Special considerations for certain categories of employees should continue to be

considered as they always have been -- individually, and on their own merits.

The plan which you and Chairwoman Oakar have developed meets all of the critical tests for success from NARFE's viewpoint:

COLA's - Your plan calls for full COLA protection for all federal retirees equal to that provided under Social Security. This equality with Social Security is essential to protecting the purchasing power of federal retirees. Just this year during the budget process, Congress demonstrated its desire to treat all retirement COLAs the same. Any deviation from this equal treatment on all non-means tested federally administered retirement programs can only be viewed as an attack on federal retirees.

As you know the bill before the Senate contains three different cost-of-living calculations. We call these the Classic COLA, the diet COLA, and the un-COLA.

The problem with the Senate approach, Mr. Chairman, is that this important feature should not be like a multiple choice test. Rather, it is a test of our ability as a nation to establish one policy on protecting the earned benefits of all retirees.

Some have argued that the government cannot afford full inflation protection for all retirees. But I submit our nation cannot afford to have different inflation protection for different groups of retirees.

Unitary Plan - NARFE strongly endorses the unitary approach with mandatory contributions by all employees as embodied in your plan rather than the options in the Senate bill. The strength of our retirement system has been that it has provided retirement security to all categories of employees, from janitor to Senator. All employees have a financial stake in the system, and all retirement benefits are paid out of one fund. Maintaining this communal

financial stake is critical to protecting the retirement benefits of all federal and postal workers and retirees.

Defined Benefits - It is ironic that most of the people who have been involved in discussions concerning the new retirement plan are not retired. As a retiree, let me tell you the simple financial facts which an employee considering retirement must think about. The first is how much pre-retirement income will be replaced by the annuity. If that calculated replacement rate is sufficient to meet the employee's financial needs upon retirement, the next question is whether the value of the annuity will be protected during retirement. By placing primary emphasis on a unitary defined benefit plan and providing inflation protection, your plan allows employees to make both these calculations -- and the ultimate retirement decision -- on an informed basis.

Capital Accumulation Plan - NARFE supports the goal of encouraging employees to save for their retirement years. However, we recognize, as you do, that individual savings are not a substitute, but an adjunct, to the basic guaranteed retirement benefit. We believe the 50% match up to 6% of salary you propose is sufficient. NARFE would strongly oppose any expansion of this part of the package if it means a concurrent reduction in the defined benefit element.

Concerning the investment of funds in the capital accumulation plan, we feel strongly that all funds should be invested in government and government-guaranteed securities. There are several reasons why we have come to the conclusion that this approach is best. First, it avoids the potential for the political and administrative pitfalls that could well be created if large amounts of money were placed with numerous private vendors. Second, we think that taxpayers will hold the plan in higher regard if it is viewed as a way for federal employees to invest in their employer, the U. S. Government, rather than as a way to set up civil servants with a stake on Wall Street.

Third, and perhaps most persuasive of all, placing the funds outside of government would increase the budget deficit by scores of billions of dollars, a result which would surely come back to haunt the Congress as well as jeopardize the continued viability of the capital accumulation plan.

On the matter of managing capital accumulation plan assets, NARFE recognizes the difficult decisions which must be made. Obviously plan management decisions should be vested with financial management professionals. But just as obviously, representatives from the Congress, the Administration, and elected employee and retiree representatives should play a vital role so that employees who contribute and retirees who receive benefits have confidence in the plan. NARFE recommends a structure that allows employee and retiree group involvement in the management of plan assets.

The management board, however, could quickly become unwieldy if it is too large. Therefore, we recommend a bi-partisan three member board which operates with the guidance of a broad-based advisory council including employee and retiree groups.

Coverage - Consistent with the position taken by the 28 member organizations of the FAIR coalition, we do not feel that the new plan should be opened to pre-1984 hires. Whether or not pre-1984 employees should be allowed to participate in the new system is a matter that should only be considered at a later date, after the new plan is in place. Too many jurisdictional and political problems arise if we do otherwise.

The current retirement system provides full retirement benefits for workers at all levels. There is no need to open up this complex and dangerous issue. The alternative you propose -- allowing pre-1984 employees to participate in the capital accumulation plan only -- is a good one which we support. Even though the contributions would be unmatched, the tax-deferred saving would satisfy the

major reason for any interest of pre-1984 employees in the new system.

In conclusion, Mr. Chairman, your plan meets every critical test established by NARFE. It deserves and has earned our support.

It is fair, it is justifiable, and it protects the integrity of the current system. It balances the employee desire for portable benefits with the management need to retain qualified employees for a full career. It recognizes the need to maintain a young and vigorous workforce in certain employment categories such as law enforcement and firefighting. It encourages employees to save for their retirement, while it maintains a guaranteed defined benefit program for basic retirement security.

In short, it would provide the income replacement and security which the nation's employees deserve after a successful career of government service. The plan developed by you and Chairwoman Oakar is one which the Congress, and the nation, can be proud.

NARFE appreciates the opportunity to present our views, and we would be pleased to respond to any questions you may have.

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